

# ICPS newsletter®

## Consensus forecast: Economic growth despite inflation

*On March 13, ICPS economists Ildar Gazizullin, Oleksandr Zholud and Hanna Cherednychenko participated in the latest quarterly macroeconomic forecasting seminar. During the seminar, forecasts for macroeconomic indicators were presented for 2008 and 2009 and the medium term*

The purpose of this seminar is to improve the quality of macroeconomic forecasts, to foster the exchange of information, and to discuss the most urgent issues related to current trends and forecasts of Ukraine's socio-economic development. Leading public and private entities and think-tanks offer their forecasts every quarter for the purpose of preparing a consolidated consensus forecast. The indicators for this consensus forecast are determined as the average of all the forecasts prepared by seminar participants. The organizer of this event is the Ministry of Economy with the support of the UN Development Programme (UNDP) as part of the multi-year Millennium Development Goals (MDG) project.

According to expert assessments, Ukraine's economy will see a slight slowdown in 2008, compared to 2007. The main factors behind this slower pace of economic growth most experts agree will be: an expected worsening in trade conditions for Ukraine, a cooler world economy, and the growing cost of manufacturing.

Participants altered their forecast assumptions for 2008. For instance, given the continuing rapid growth of personal incomes, high inflationary expectations, and global inflationary processes, the experts increased their projections for consumer price growth in 2008 to 14.1%. Analysts downgraded their forecast for the pace of growth of the world economy, the US, and Euro-area countries, mainly

because of the global financial crisis and accelerating inflationary processes. At the same time, experts say that Russia will remain one of the fastest-growing countries in the world.

Forecasts for the 2008 harvest improved somewhat, however. All the participants agreed that, given the expectations of better weather conditions than in 2007 and higher world prices for food, grain crops will be better.

Where the experts disagreed was regarding price projections for imported natural gas in 2008. Most believe this price will not change during the year. But some of the forecasters are certain that the price will be revised upwards in H2'08.

All the analysts expected privatization to pick up pace compared to last year. The minimum projected revenues for 2008 were UAH 5bn and the maximum, UAH 20.5bn. Most anticipate that Ukrtelecom and the Odesa Port Plant would finally be sold off. ■

*For more detailed materials from the quarterly seminar on macroeconomic forecasting, you can visit the Ministry of Economy website at [http://www.me.gov.ua/control/uk/publish/category/main?cat\\_id=73499](http://www.me.gov.ua/control/uk/publish/category/main?cat_id=73499).*

*For additional information, contact ICPS Senior Economist Ildar Gazizullin by phone at (38044) 484-4400 or via e-mail at [igazizullin@icps.kiev.ua](mailto:igazizullin@icps.kiev.ua)*

### Final phase of public consultations on reforming local governments in Ukraine

The final cycle of public consultations has commenced under the "Public Consultations on Reforming Local Government in Ukraine and Public Awareness Campaign—Stage 2" project, jointly implemented by ICPS and the Center for Ukrainian Reform Education (CURE) with funding from Britain's World Fund for Democracy (WFD).

On 3–5 March, ICPS political analyst Ivan Presniakov presented possible ways to reform local government bodies in Chernivtsi, Lutsk and Zhytomyr. On 11–14 March, Viktor Chumak, ICPS Director for Policy Analysis and Security Programs, made similar presentations in Sumy, Dnipropetrovsk, Mykolayiv and Kirovohrad. An international expert was also involved in these consultations, Ms Georgya Nikos, the deputy director of the non-government Agency for Regional Development. Ms Nikos presented the experience of Hungary in reforming local governments.

In December 2007, the first phase of public consultations took place in these cities. The goal of the first round was to establish the positions of stakeholders—government officials, local government officials, specialists, and the press—regarding local government reform. The aim of the current round was to exchange experiences among various regions, to confirm the receptiveness of various stakeholders to the propositions worked up in the project, and to evaluate these propositions in light of the experience of other countries, such as Hungary, in decentralizing their governments.

# Macroeconomic forecast for 2008–2009

| 2009   |                     |                       |   |           | 2009   |                     |                       |   |          |
|--|---------------------|-----------------------|---|-----------|--|---------------------|-----------------------|---|----------|
| Index  | March 2008 Forecast | October 2007 Forecast | ↔ | Forecast  | Index  | March 2008 Forecast | October 2007 Forecast | ↔ | Forecast |
| <b>Real sector (mn UAH)</b>                  |                     |                       |   |           |  |                     |                       |   |          |
| Nominal GDP                                  | 907,946             | 812,519               | ↑ | 1,108,150 | Export volumes   | 42.9                | 43.3                  | ↓ | 41.9     |
| Consumption                                  | 716,855             | 640,299               | ↑ | 872,004   | Import volumes   | -48.6               | -48.3                 | ↓ | -48.0    |
| private                                      | 551,208             | 469,744               | ↑ | 668,178   | Revenue balance  | -1.3                | -1.8                  | ↑ | -1.5     |
| public                                       | 167,157             | 146,841               | ↑ | 200,157   | Official transfers (net)   | 2.3                 | 2.3                   | = | 2.1      |
| Investment                                   | 240,807             | 218,609               | ↑ | 299,950   | Capital account balance  | 5.8                 | 5.5                   | ↑ | -5.5     |
| Gross accumulation of fixed capital          | 243,136             | 202,956               | ↑ | 300,272   | FDI  | 5.3                 | 3.7                   | ↑ | 41.9     |
| private                                      | 206,923             | 177,540               | ↑ | 258,177   | <b>Обмінний курс UAH/USD</b>                                     |                     |                       |   |          |
| public                                       | 27,262              | 27,967                | ↓ | 34,445    | average  | 5.04                | 5.06                  | ↓ | 5.04     |
| Net export of goods and non: agency services | -49,556             | -37,053               | ↑ | -64,581   | YE   | 5.05                | 5.06                  | ↓ | 5.05     |
| Gross national savings                       | 210,874             | 192,931               | ↑ | 265,366   | <b>Public finance (mn UAH)</b>                                   |                     |                       |   |          |
| <b>Real sector (index, year-on-year)</b>     |                     |                       |   |           | Total revenues   | 294,362             | 267,998               | ↑ | 352,054  |
| Real GDP                                     | 106.1               | 106.4                 | ↓ | 106.0     | Total expenditures   | 310,535             | 285,476               | ↑ | 370,439  |
| Consumption                                  | 109.0               | 107.2                 | ↑ | 107.8     | Overall balance  | -16,173             | 17,478                | ↓ | -18,289  |
| private                                      | 111.3               | 109.3                 | ↑ | 109.6     | <i>Financing items</i>   |                     |                       |   |          |
| public                                       | 103.6               | 102.5                 | ↑ | 103.9     | Privatization  | 13,091              | 8,989                 | ↑ | 6,454    |
| Investment                                   | 112.2               | 112.0                 | ↑ | 111.8     | <b>Public finance (% of GDP)</b>                                 |                     |                       |   |          |
| <b>Inflation (index, year-on-year)</b>       |                     |                       |   |           | Total revenues   | 32.4                | 33.0                  | ↓ | 31.8     |
| GDP Deflator (average annual)                | 120.2               | 113.2                 | ↑ | 115.0     | Total expenditures   | 34.2                | 35.1                  | ↓ | 33.4     |
| CPI (average annual)                         | 118.0               | 110.9                 | ↑ | 111.6     | Overall balance  | -1.8                | -2.2                  | ↑ | -1.7     |
| Dec. on Dec.                                 | 114.1               | 109.8                 | ↑ | 110.6     | <i>Financing items</i>   |                     |                       |   |          |
| PPI (average annual)                         | 120.8               | 114.1                 | ↑ | 114.7     | Privatization  | 1.4                 | 1.1                   | ↑ | 0.6      |
| Dec. on Dec.                                 | 117.4               | 111.8                 | ↑ | 113.4     | <b>Money and credit</b>  |                     |                       |   |          |
| <b>External Sector (mn USD)</b>              |                     |                       |   |           | Monetary base (YE), mn UAH                                       | 182,100             | 158,284               | ↑ | 229,641  |
| Current account balance                      | -8,454              | -7,219                | ↓ | -12,097   | Dec. on Dec., %  | 28.3                | 22.7                  | ↑ | 26.1     |
| Export volumes                               | 77,355              | 69,467                | ↑ | 92,134    | Money supply (M3) (YE)   | 521,188             | 456,708               | ↑ | 671,060  |
| Import volumes                               | -87,617             | 77,569                | ↓ | -105,529  | Dec. on Dec., %  | 31.6                | 27.6                  | ↑ | 28.8     |
| Revenue balance                              | -2,759              | -2,820                | ↑ | -3,362    | Average weighted interest rate on commercial hryvnia loans, % pa | 14.1                | 13.3                  | ↑ | 13.2     |
| Official transfers (net)                     | 4,198               | 3 703                 | ↑ | 4,660     | NBU international reserves, mn USD                               | 36,480              | 31,674                | ↑ | 37,934   |
| Capital account balance                      | 10,385              | 8,848                 | ↑ | 11,894    | <b>Social indicators</b>   |                     |                       |   |          |
| FDI  | 9,463               | 6,002                 | ↑ | 9,710     | Population, millions   | 46.1                | 46.05                 | ↑ | 45.8     |
| <b>External Sector (% of GDP)</b>            |                     |                       |   |           | Average wage, UAH  | 1,826               | 1,610                 | ↑ | 2,322    |
| Current account balance                      | -4.7                | -4.5                  | ↓ | -5.5      | Disposable household income % change over previous year          | 12.2                | 10.6                  | ↑ | 11.0     |

**icps newsletter** is a weekly publication of the International Centre for Policy Studies, delivered by electronic mail. To be included in the distribution list, mail your request to: [marketing@icps.kiev.ua](mailto:marketing@icps.kiev.ua).

**icps newsletter** editor: Olha Lvova ([olvova@icps.kiev.ua](mailto:olvova@icps.kiev.ua))  
Phone: (380-44) 484-4400. Fax: (380-44) 484-4402  
English text editor: L.A. Wolanskyj  
Articles may be reprinted with ICPS consent.

The International Centre for Policy Studies is an independent research organization whose mandate is to promote the introduction of public policy concepts and practices in Ukraine. This is achieved by increasing the know-how of key government officials for policy choices, formulation and debate, and the awareness of the public-at-large of the benefits of policy.  
Address: vul. Pymonenka 13A, Kyiv, Ukraine 04050  
Web-site: <http://www.icps.com.ua/eng/>